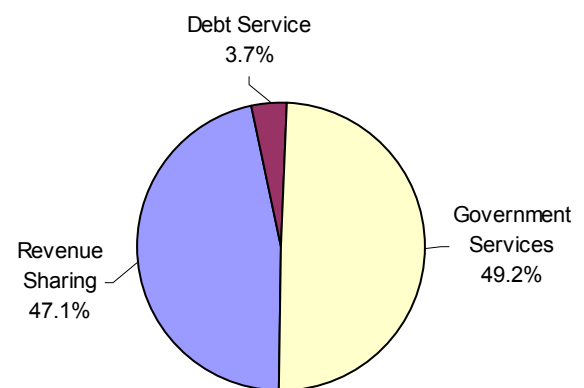


BETTER GOVERNMENT

Goal: Make Government in Michigan More Cost Effective and Efficient

Making government in Michigan more cost effective and efficient is a major goal in any budget year, but the need to focus on “better government” is particularly important for fiscal year 2006, given on-going revenue constraints. In this era of permanent fiscal crisis, better government in Michigan means keeping the checkbook balanced, providing fast and friendly service to all citizens, cutting red tape and frugally managing the workplaces, tools and equipment of state government. It also means improving collaboration in order to increase efficiencies, making Michigan more equitable for all residents and making state government a great place to work. While better government is an important goal for all state departments, the term took on a special meaning during the Administration’s fiscal year 2006 budget development process. Senior departmental officials from the departments of Treasury, Management and Budget, Information Technology, Civil Service, Civil Rights, Natural Resources, Labor and Economic Growth, and Histories, Arts and Libraries came together to collaboratively develop funding recommendations for the administrative functions of state government. By focusing on squeezing more value out of every tax dollar, the Governor’s budget delivers the results the public wants at a price they are willing to pay.

Better Government Spending Plan



Total: \$2.38 Billion

Strategies to Achieve Goal

- Keep the checkbook balanced, put money away for the future, and demand results for every taxpayer dollar we spend.
- Cut red tape in state government by streamlining services and implementing innovative technology to reduce time, mistakes and costs.
- Frugally manage the workplaces, tools and equipment used to run state government and continue to cut government costs.
- Offer fast and friendly service to all citizens, whether online or face-to-face, by increasing the number of online services and developing a citizen satisfaction survey to measure performance.
- Make state government both a great place to work and a place that produces great work by ensuring our government is diverse, inclusive and representative of our population; make sure state employees have the tools necessary to do their jobs - all while lowering overall costs.
- Make Michigan more inclusive and equitable for all residents in employment, education, health and housing by ensuring timely resolution to civil rights complaints and training our government workforce.
- Maintain and improve strong, collaborative relationships with federal agencies, local governments, and the private sector via shared government services.

The Governor's proposed budget for fiscal year 2006 recommends total funding to support the better government goal of \$2.38 billion, of which \$466.3 million is general fund. There are 118 activities in 12 departments that support this goal. The Governor's funding priorities reflect her desire to protect core services to citizens and state government; identify and implement administrative efficiencies to reduce the cost of state services; and fund cost-saving initiatives that make possible even greater savings in the future.

Programs within the departments of Attorney General and State, as well as the Legislature also fit under the umbrella of better government. Although not included in the new priority setting process, the Governor recommends continuation level of funding for these activities in fiscal year 2006.

Preserving Core Services to Citizens and State Government

Local government revenue sharing; the administration of the state's tax system; the management of state pensions; and the investigation and resolution of complaints of discrimination are some of the government services included as part of the better government goal. Many of these activities involve a high level of interaction with the state's customers and represent the "face" of government to the public. Also included are the central support services of state government such as financial services, human resources management, information technology and state contracting and purchasing activities.



Spending Priorities

- **Maintain Spending for Revenue Sharing to Local Units of Government**
\$1.12 billion total; \$0.0 state general fund
- **Support Tax Collection Services**
\$64.3 million total; \$4.4 million state general fund
- **Manage State Investments**
\$13.7 million total; \$0.0 million state general fund
- **Investigate and Resolve Complaints of Discrimination**
\$13.3 million total; \$12.3 million state general fund

- **Local Revenue Sharing** provides unrestricted financial support to over 1,800 units of local government and allows them to determine how to most effectively target their financial resources to meet local needs. Local governments use this money for police services, fire protection and other critical local needs. For fiscal year 2006, the Governor maintains support for local revenue sharing at the current year level. This financial support consists of both constitutional and statutory payments. The constitutional obligation for cities, townships and villages, disbursed on a per capita basis, is recommended at \$702.3 million, while the remaining statutory obligation is \$418.8 million.

- **Administration of the State Tax System**, including customer contact, tax audit and tax processing activities, is recommended for continuation level funding of \$64.3 million for fiscal year 2006. Automation improvements in recent years make filing taxes and receiving a refund even faster and easier. Taxpayers filing electronically through the state's *e-file* program can receive their refunds in seven to ten days.
- **Investment of State Funds**, including the investment of pension funds, common cash and state restricted funds on behalf of the state, is recommended at \$13.7 million. The Governor recommends an additional \$500,000 of restricted funds to actively manage \$800.0 million worth of Mid Cap domestic equities and \$750 million of international equities in order to increase investment returns. It is anticipated a more actively managed portfolio with these asset classes will generate an additional \$3 million in fiscal year 2006 and an additional \$9 million in fiscal year 2007.

- *Investigation and Resolution of Discrimination Complaints* is funded at \$13.3 million for fiscal year 2006. These funds will be used to ensure that Michigan is more inclusive and equitable for all residents in employment, education, health and housing by ensuring timely resolution to civil rights complaints.

Reducing Costs Through Administrative Efficiencies

In order to achieve better government in this era of fiscal challenge, it is inevitable that some current activities will need to be reduced or eliminated. Through the priority setting budget process, the Governor identified several opportunities to streamline existing approaches to service delivery while minimizing negative impacts to citizens. Efficiencies will be achieved by improving collaborative relationships with federal agencies, local governments and the private sector; by frugally managing the state's workplaces; by cutting red tape and by demanding results for every taxpayer dollar spent. Highlighted below are some of the Governor's major recommendations for reducing administrative costs:

- *Retirement Medicare Prescription Drug Benefit.* The federal Medicare Prescription Drug, Improvement, and Modernization Act of 2003 adds prescription drug coverage to the Medicare program, which should save the public schools and state retirement systems at least \$53.5 million by paying part of the costs currently borne by these systems. These savings will lower the growth in health costs to the retirement systems. The state will use existing resources to notify public school and state retirees about these benefit changes.
- *Information Technology.* The Department of Information Technology, which was created to streamline and consolidate computer operations and equipment for the state, has identified cost saving opportunities that will yield over \$10 million in savings in the current year and in fiscal year 2006. These savings include reductions to specific information technology systems, closer scrutiny of contractual equipment purchases by departments, telecommunications and data center savings, and administrative efficiencies, which will reduce the rates charged to departments for information technology services.



New Initiatives

- **Implement Procurement Process Improvements**
\$1,450,000 total; \$0 state general fund
\$30 million in savings
- **Implement Medicare Prescription Drug Benefit**
Fund with existing resources
\$53.5 million in pension savings
- **Implement Escheats Enforcement Audits Program**
\$500,000 total; \$0 state general fund
Recover \$10.0 million in revenues
- **Actively Manage New Investment Asset Classes**
\$500,000 total; \$0 state general fund
Increase investment returns by \$12.0 million over two years
- **Develop A Retirement Services Disaster Recovery Plan**
\$500,000 total; \$0 state general fund



Spending Reductions

- **Statewide Contractual Services Savings**
\$30 million state general fund
- **Statewide Information Technology Savings**
\$10.2 million total; \$8.6 million state general fund
- **Statewide Human Resources Management Savings**
17.0 FTEs, \$1.2 million total; \$725,000 state general fund
- **Reduction in Building Occupancy Charges**
\$805,000 total; \$362,000 state general fund
- **Civil Service Administrative Efficiencies**
\$492,000 total; \$492,000 state general fund
- **Efficiencies in the Supervision of the General Property Tax Law Program**
\$450,000 total; \$450,000 state general fund
- **Aerial Photography, Digital Imagery And Mapping Services Savings**
\$146,700 total; \$146,700 state general fund
- **Library of Michigan Operational Savings**
\$100,000 total; \$100,000 state general fund
- **Civil Rights Administrative Efficiencies**
\$101,000 total; \$101,000 state general fund

- ***Human Resources Management Savings.*** The Human Resources Call Center was created in the Department of Civil Service in fiscal year 2005 in order to streamline human resource operations throughout state government. Additionally, new technology was put in place to maximize self-service opportunities for employees and managers. These two cost-saving initiatives, launched in the current fiscal year, allowed the state to reduce staffing in agency human resources offices by 74 positions. For fiscal year 2006, the Governor recommends the continuation of the human resources optimization initiative, which will result in a further reduction of 17 positions, saving an additional \$1.2 million.
- ***Management of State-Owned and Leased Building Operations.*** The management of state-owned and leased buildings includes the costs of utilities, janitorial services, security, trash removal and other maintenance services. Funding also covers private rent for Cadillac Place in Detroit, One Division in Grand Rapids and other buildings leased by the Department of Management and Budget for state agency occupancy. The fiscal year 2006 recommendation includes efficiency savings that will result in an \$805,000 reduction in rent for state agencies.

Investing in Cost-Saving Initiatives

In addition to recommending efficiency-related reductions, for fiscal year 2006, the Governor seeks legislative support for the following new investments that save more than they cost:

- ***Procurement Reform.*** The Governor has already put into place a number of restrictions on agency purchases in order to contain spending, as detailed in Executive Directive 2004-8. For the current year and continuing in to fiscal year 2006, the Governor is announcing a number of additional reforms to the state's procurement system. These include further restricting the use of sole source contracts; re-negotiating existing contracts to leverage better pricing opportunities; and consolidating purchasing functions. The Governor also recommends investing \$1.5 million of restricted revenue to implement a new internet-based purchasing system to provide better oversight of contractual spending. This recommendation will benefit state staff and those seeking to do business with the state by automating work, streamlining vendor registration, reducing the costs of bidding for state contracts, and speeding payment to vendors. Collectively, the Governor's purchasing reforms are expected to yield over \$30 million in contract savings in fiscal year 2006.

- ***In-State Escheats Enforcement Audits.*** In accordance with the Uniform Unclaimed Property Act (P.A. 29 of 1995), every individual or business that holds property belonging to someone else, whose last known address is in Michigan, must report and transfer the property to the State of Michigan. Unclaimed property includes intangible property such as cash; checks written but not cashed by the payee; stocks and unpaid wages; and tangible personal property including the contents of safe deposit boxes. Although there are over 200,000 registered businesses in Michigan, only 5,500 filed the required report in 2003. The Governor recommends investing \$500,000 of restricted funding to implement an unclaimed property (escheats) enforcement audit program. This investment is expected to recover an additional \$10 million in escheats revenue for the state.



Expenses Eliminated

- **Eliminate Oversight of County Audit Standards**
\$60,000 total; \$60,000 state general fund
- **Eliminate Payment in Lieu of Taxes for Federal Lands**
\$10,000 total; \$10,000 state general fund

- ***Retirement System Disaster Recovery.*** Currently, the state does not have a disaster recovery plan in place to ensure pension checks can be issued in a timely manner in the event of a natural disaster or a terrorist attack. The Governor recommends investing \$500,000 of pension funds to ensure that the retirement call center is operational within 48 hours after a disaster and that checks will continue to be sent to recipients in a timely manner. This small investment will allow the state retirement system to maintain services to over 560,000 active and retired members, avoiding significantly higher costs than would otherwise be incurred if a disaster strikes.

Indicators of Success

- A positive balance in the state's books
- Reduced expenditures for contractual services
- Reduced energy consumption in state buildings
- Increased number of on-line services for citizens
- Lower employee turnover rates